

# Washington State Economic Outlook & Revenue Collection Experience

Presented to  
Association of Washington Business

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Senior Economist

October 13, 2015  
Union, Washington



**WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL**



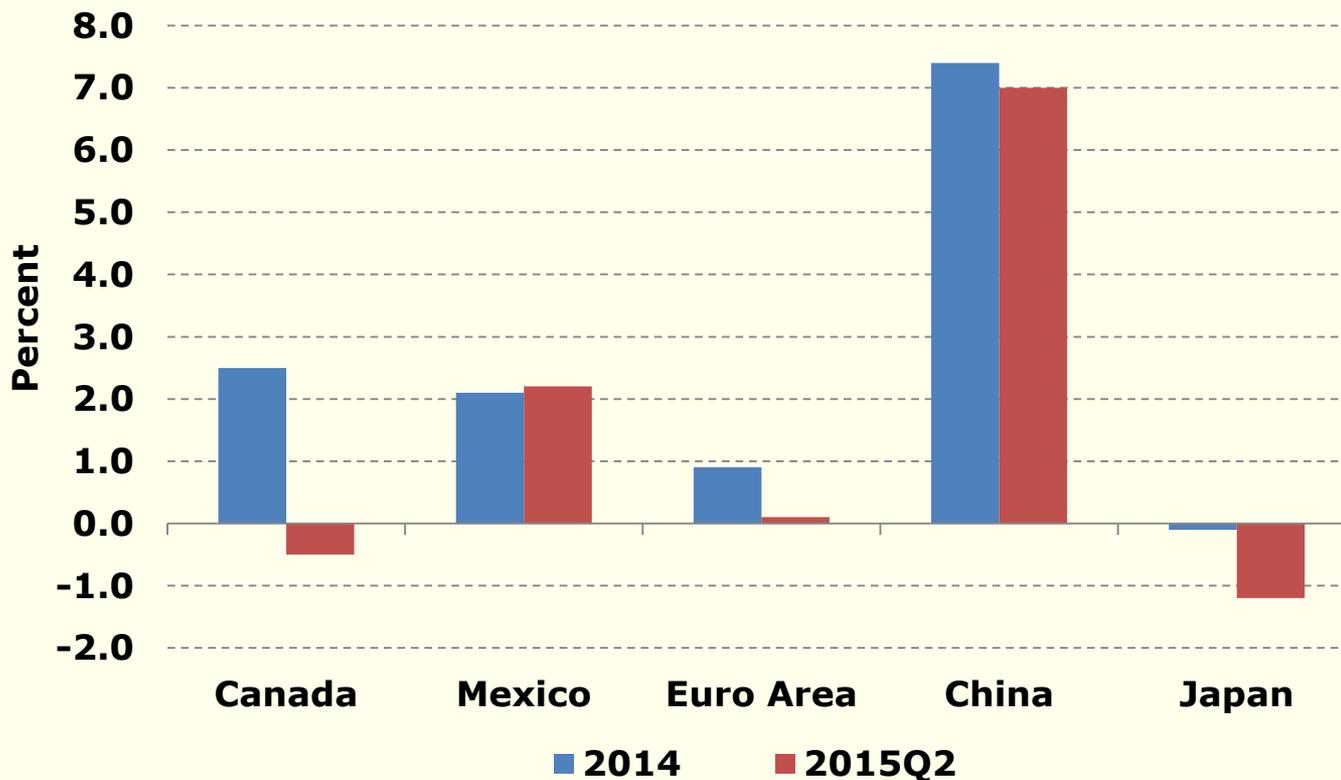
# Summary

- Recent Economic Events
  - Global Economic Slowdown
  - Current State of U.S. Economic Recovery
  - Fed decision on interest rates
- Forecast
  - United States
  - Washington
  - Revenue



# Economic growth is declining throughout the world

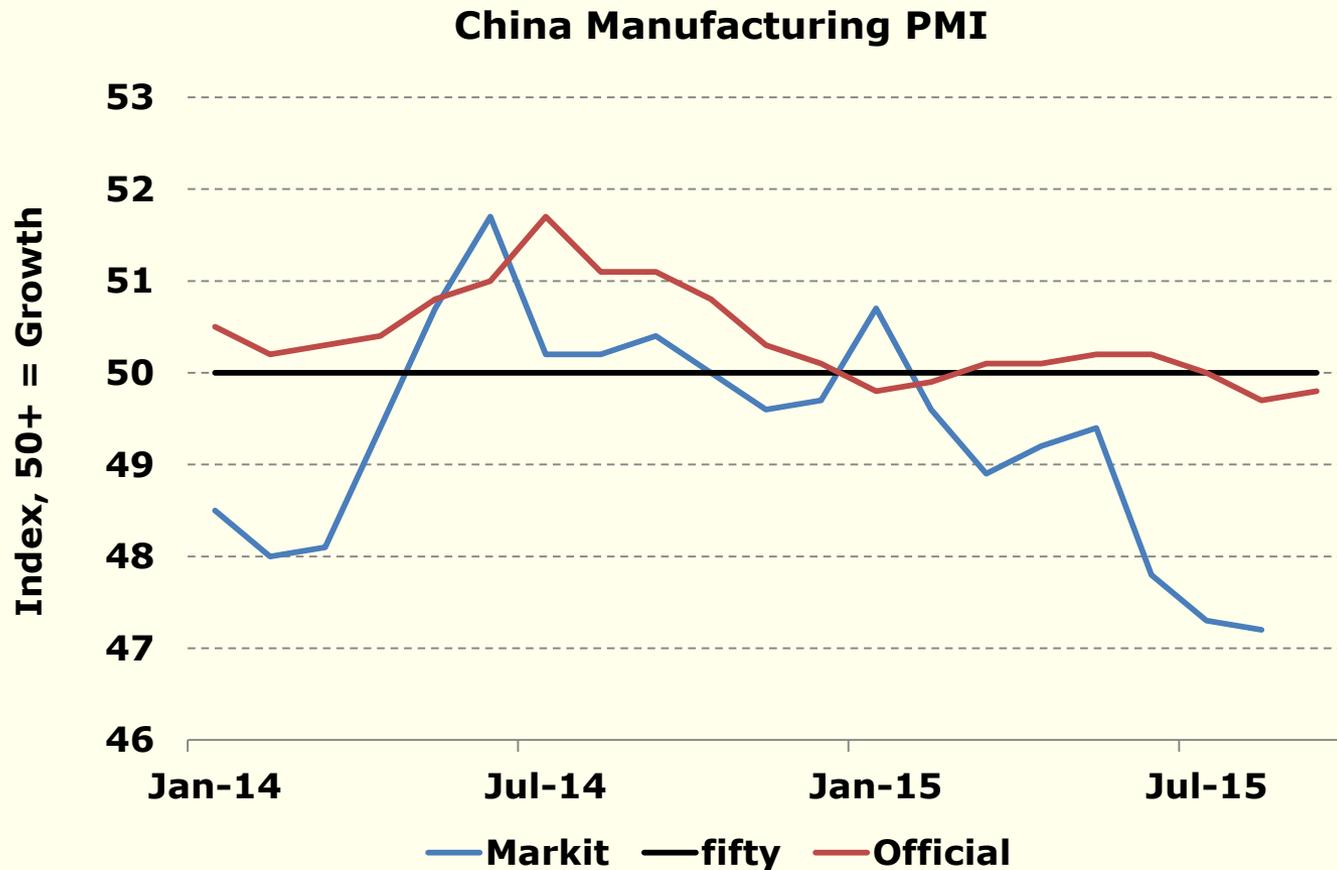
## GDP Growth of Top 5 U.S. Trading Partners



Source: Blue Chip, Eurostat, Trading Economics; data through 2015 Q2



# The Chinese manufacturing sector is declining



Source: Bloomberg, National Bureau of Statistics of China; data through September 2015

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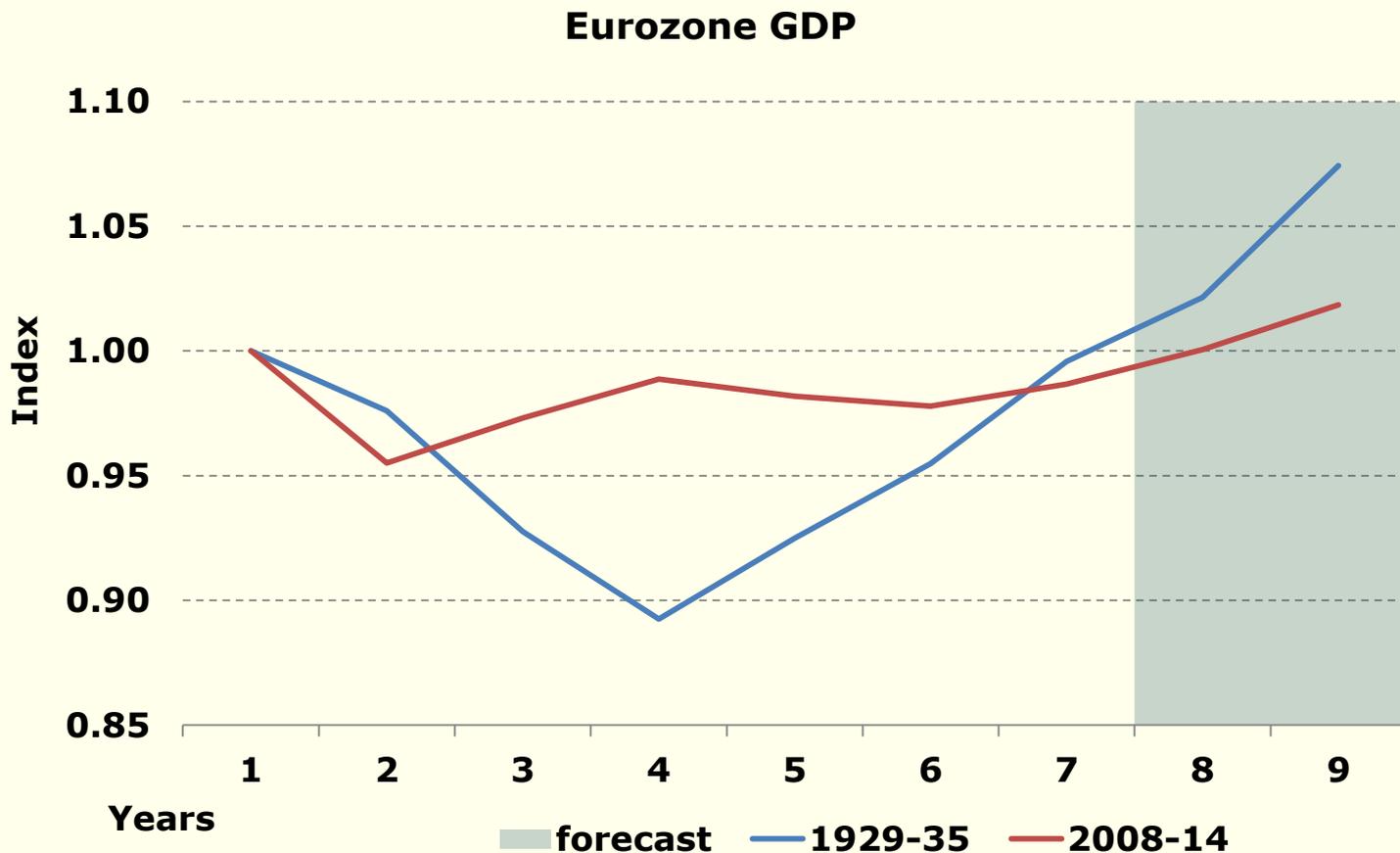
# China's 2015 & 2016 GDP growth expected to be below 2014 rate



Source: Blue Chip, Sep. 2015 forecast; IMF, Jul. 2015 forecast; World Bank, Sep. 2015 forecast



# The Eurozone economy is stuck in a prolonged depression



Source: Maddison Project, Blue Chip; historical data through 2014

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# European unemployment is much higher than the U.S.

Unemployment Rate:

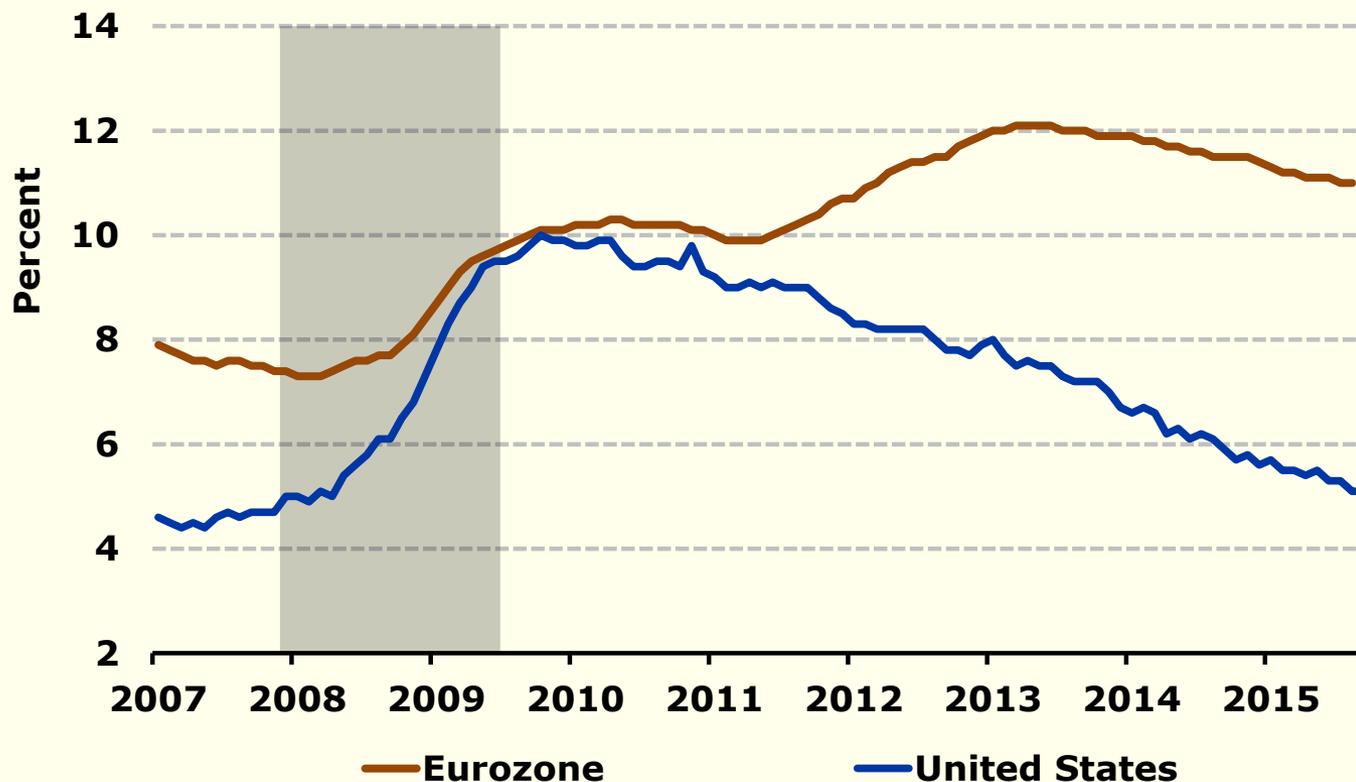
Spain: 22.2  
Greece: 25.2

Germany: 4.5

Youth Unemployment Rate:

Eurozone: 22.3  
U.S.: 11.0

## Eurozone and U.S. Unemployment

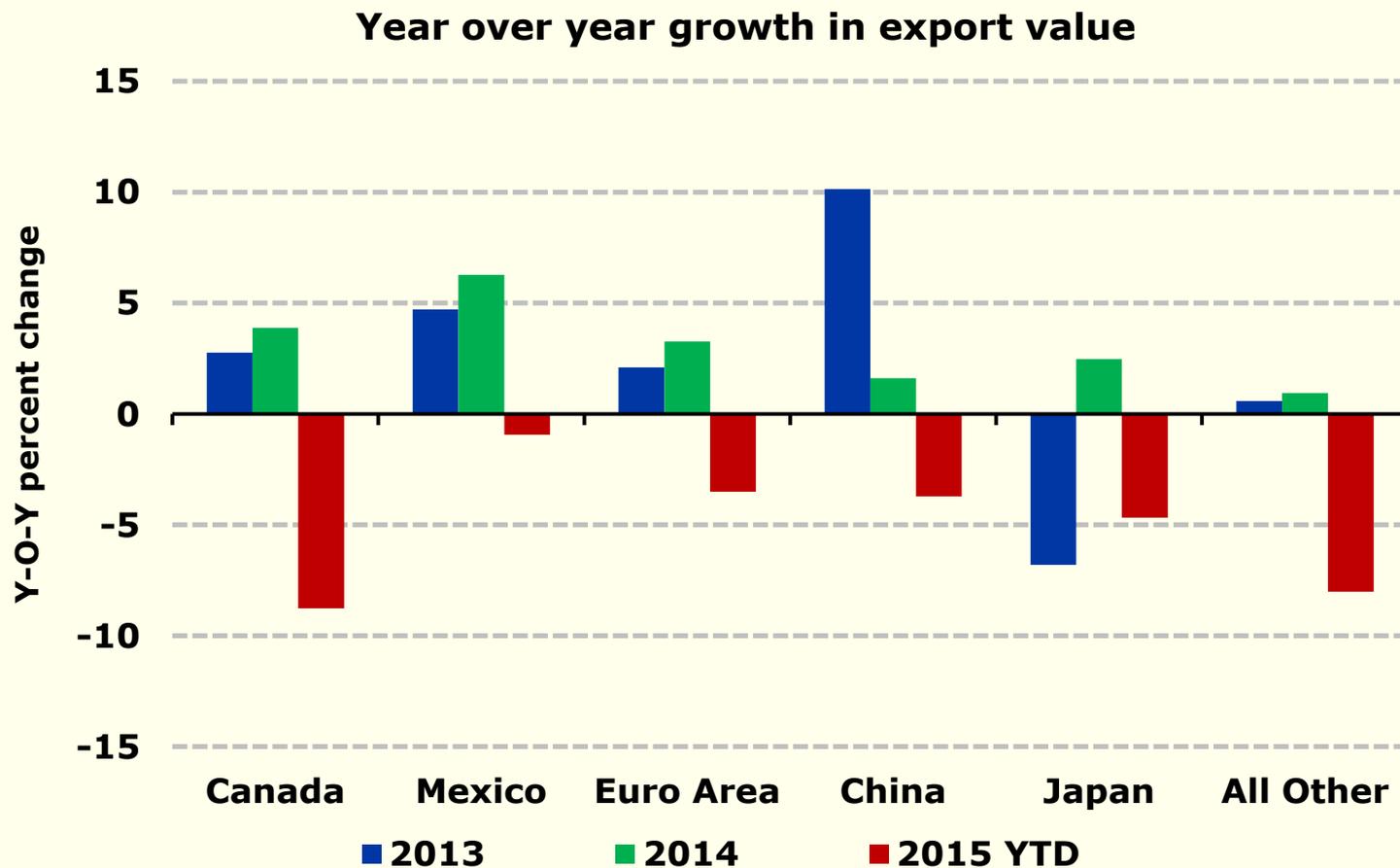


Source: Eurostat, U.S. Bureau of Labor Statistics; data through September 2015

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# WA exports to major trading partners have slowed

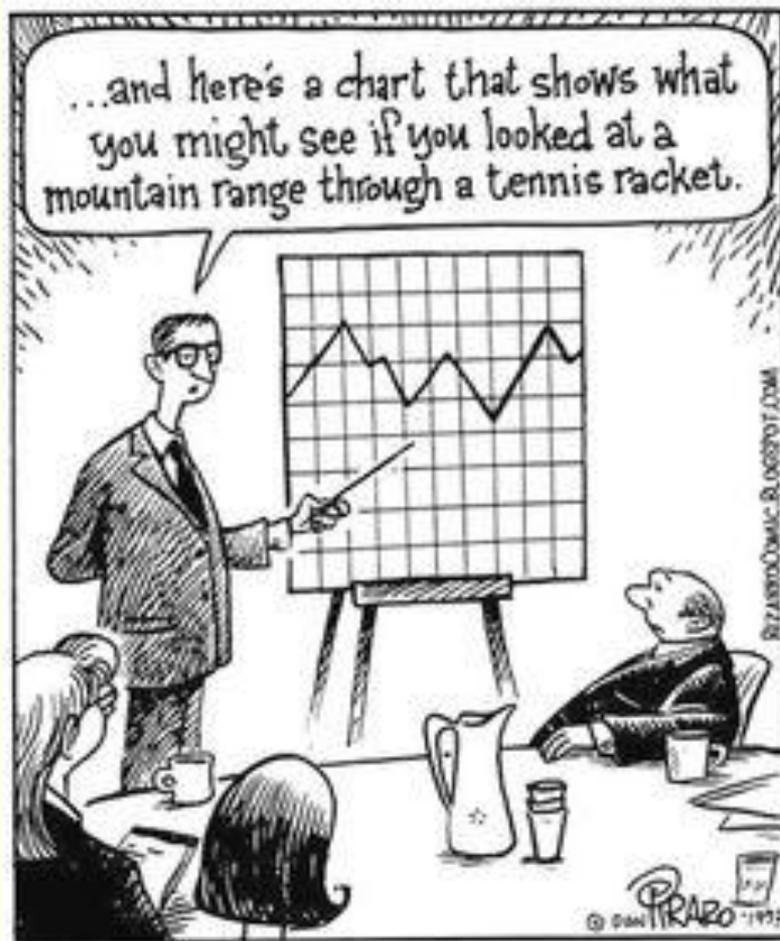


Source: WISERTrade; data through August 2015

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# U.S. Economic Recovery



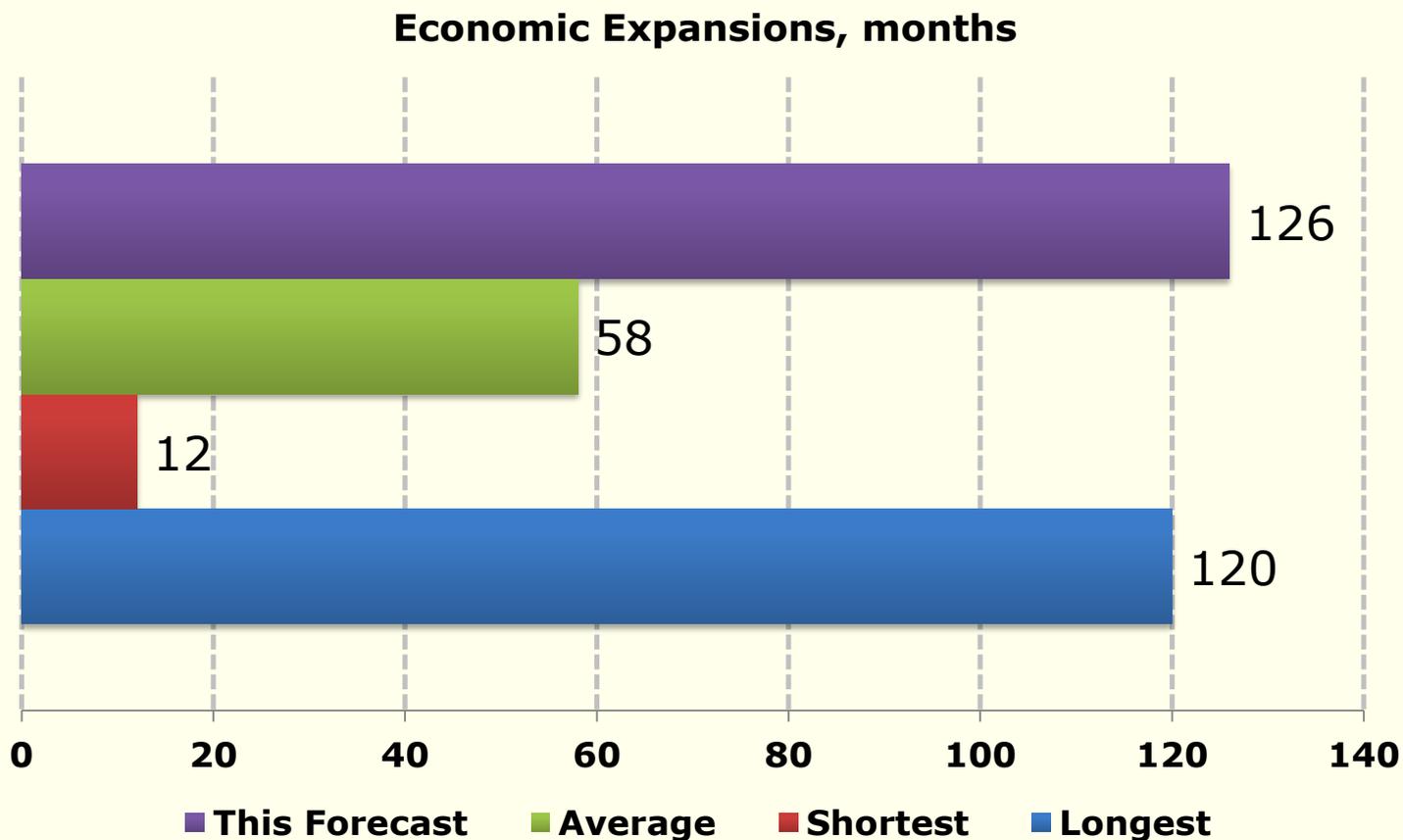
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# U.S. Economic Expansions since 1945



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Sources: NBER, ERFC September 2015 forecast

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# Stock markets declined recently over concerns about...

Although only 22% of households own stock or mutual funds outside of retirement accounts, stock prices can have a major impact on purchases

### S&P 500 Closing Price



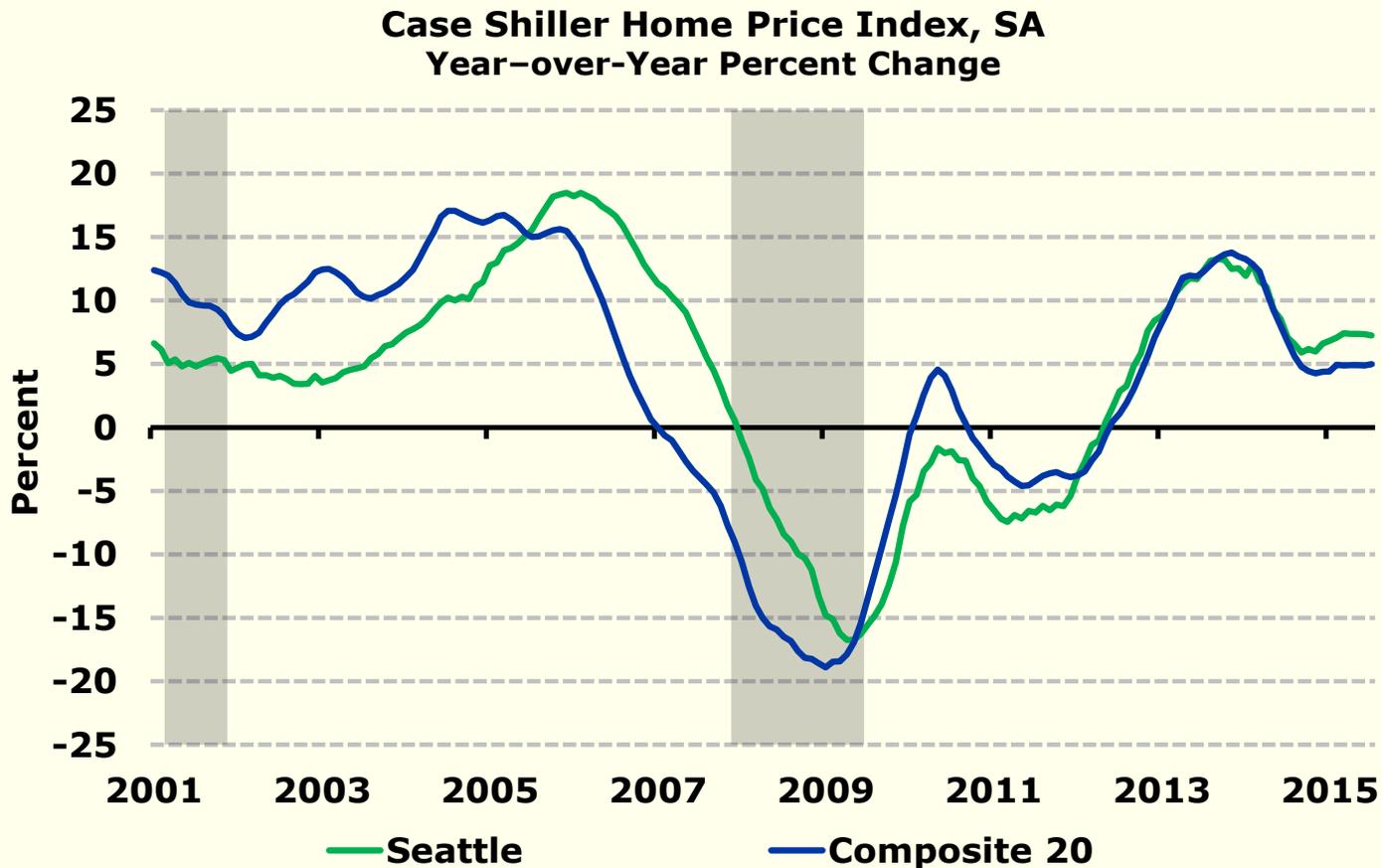
Sources: Yahoo! Finance, data through October 5, 2015

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# Single-family home prices are treading water

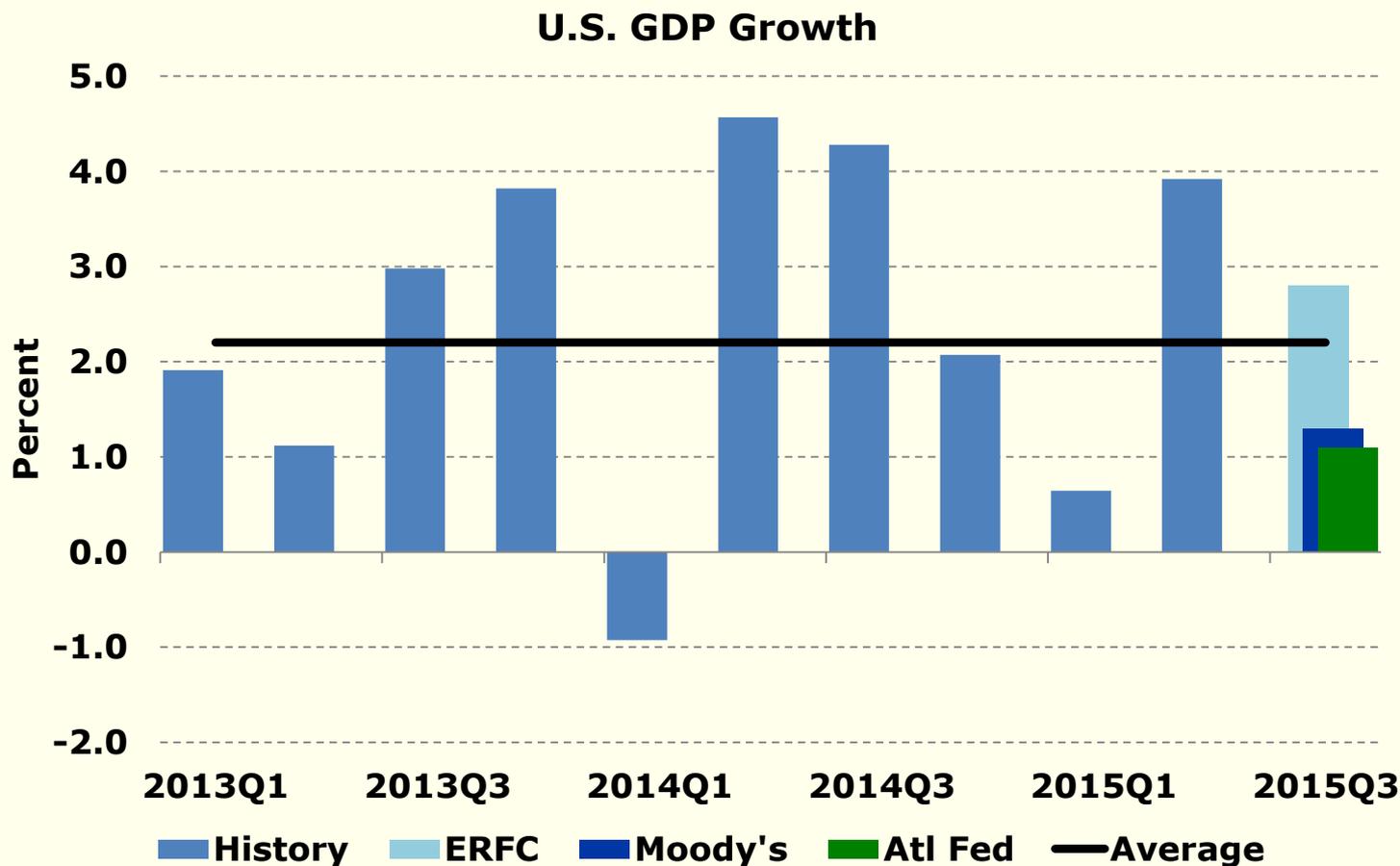


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Source: S&P/Case-Shiller; data through July 2015



# Economic growth appears to be weaker than anticipated this quarter



Source: ERFC September Forecast, Atlanta Fed, Economy.com



# The Unemployment Rate is Approaching Pre-Recession Levels

The Fed believes full employment is 4.9-5.2%



Source: BLS, data through September 2015

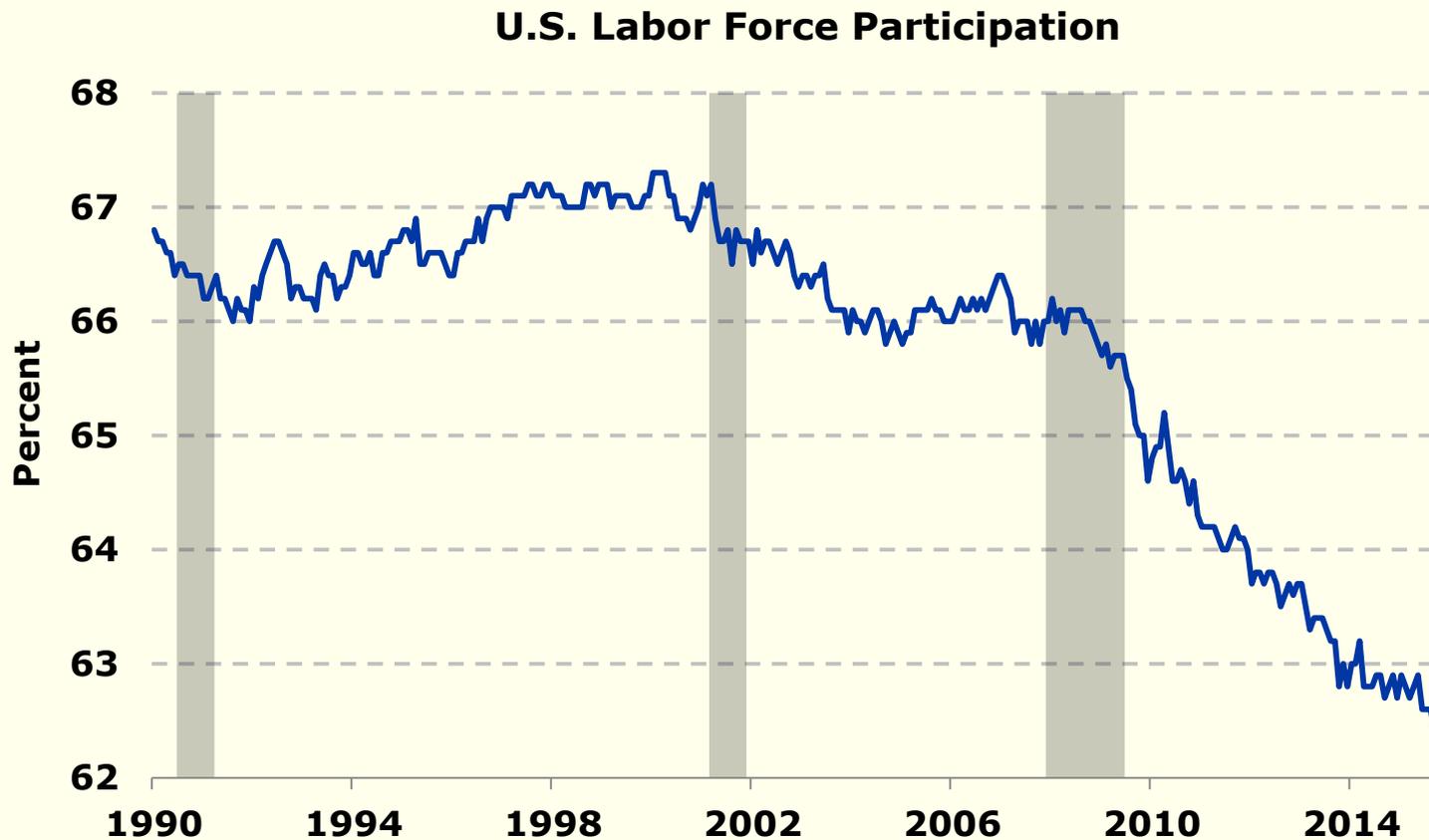
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# Labor Force Participation continues to decline

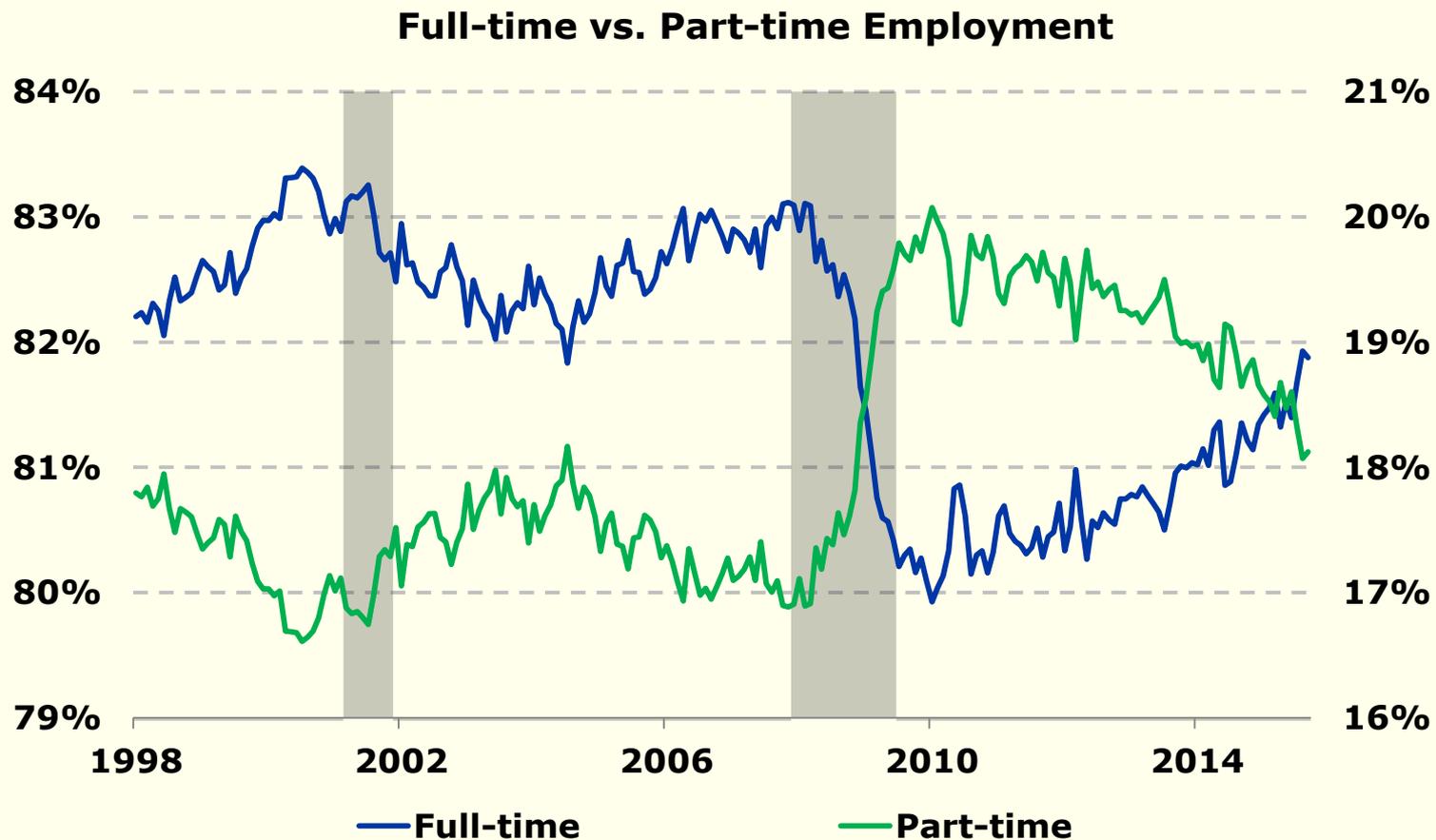


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Source: Bureau of Labor Statistics, data through September 2015



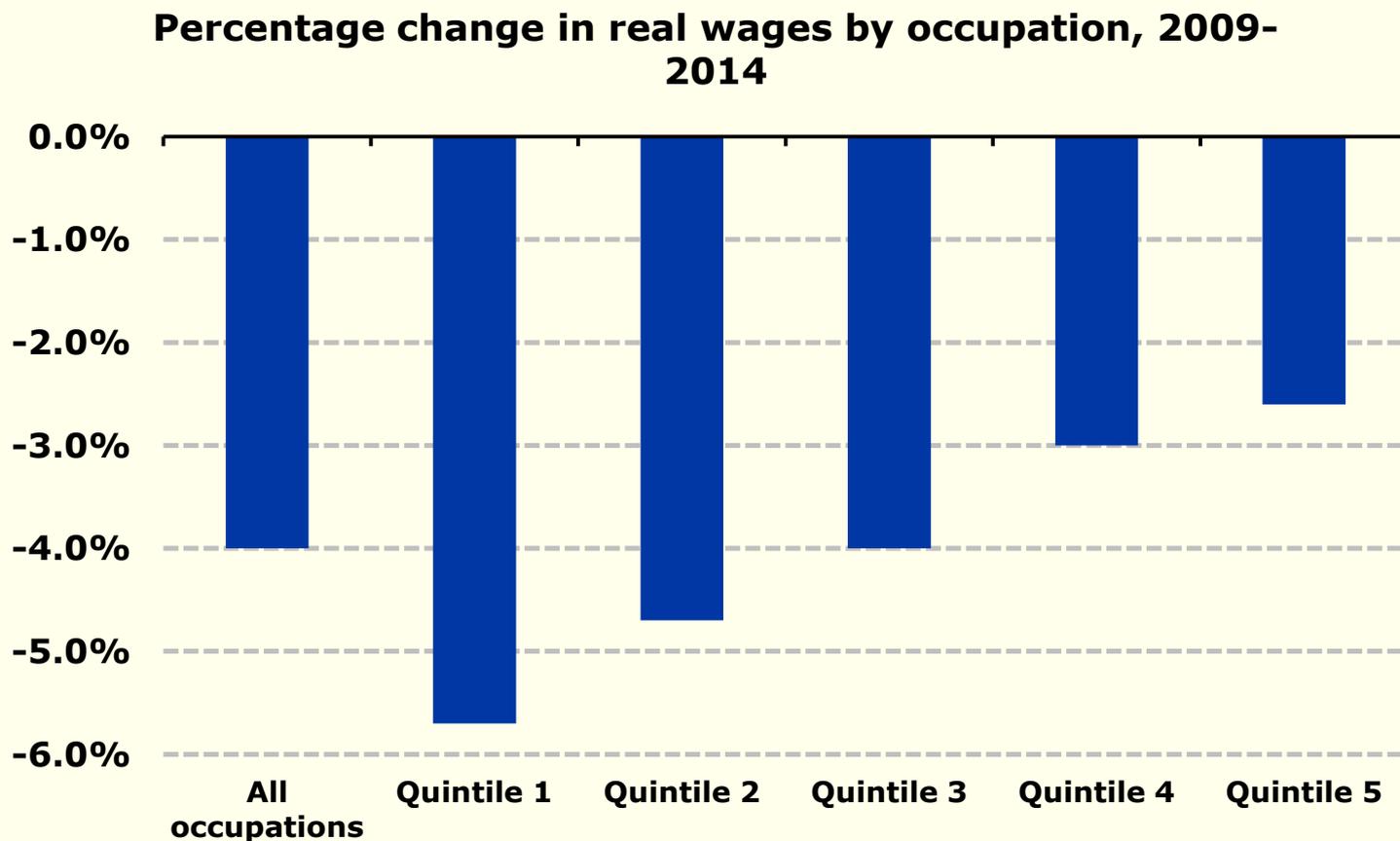
# There was a shift to part-time work during the recession



Source: Bureau of Labor Statistics, data through September 2015

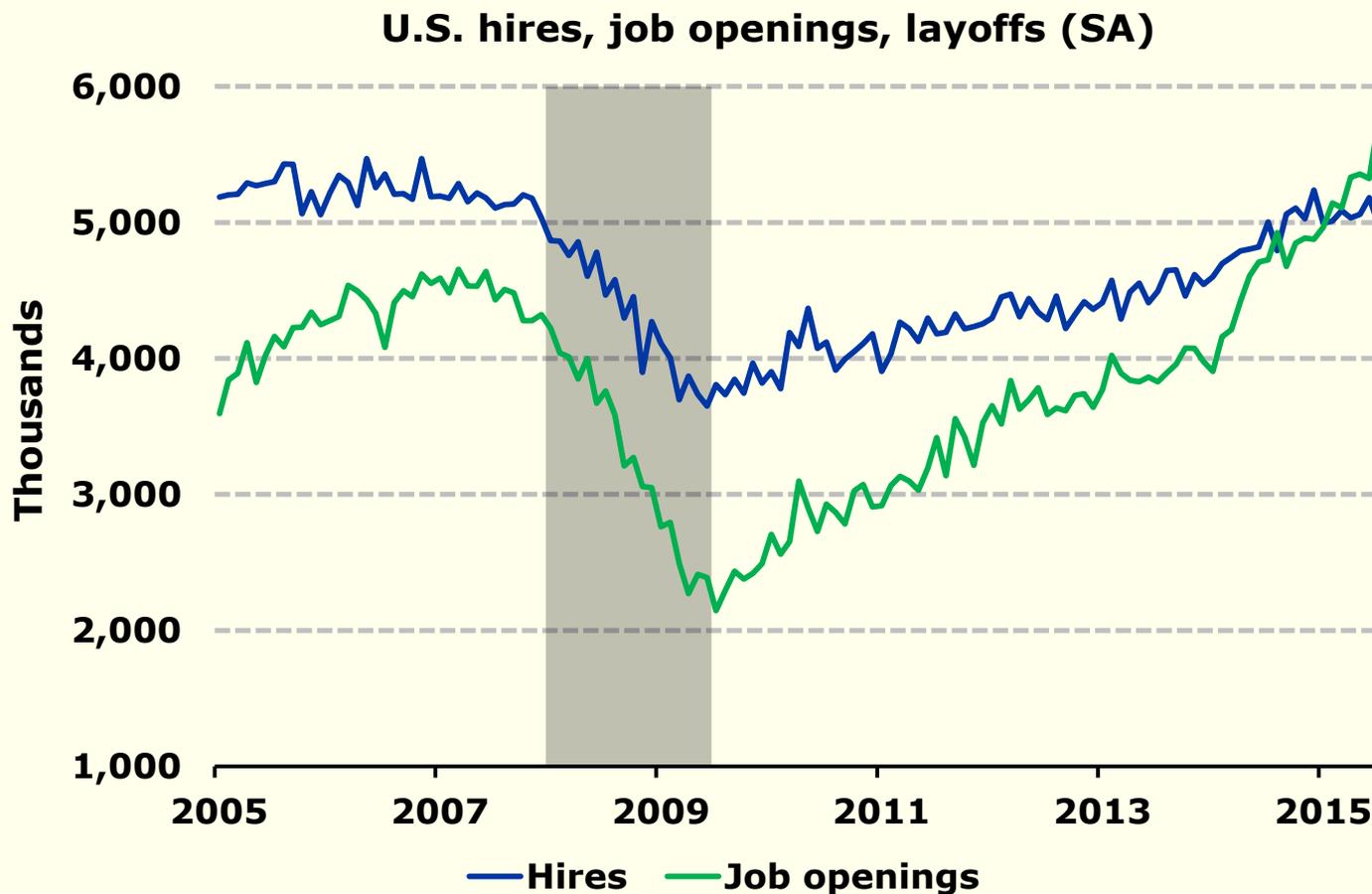


# Low and medium wage occupations experienced largest real wage decline





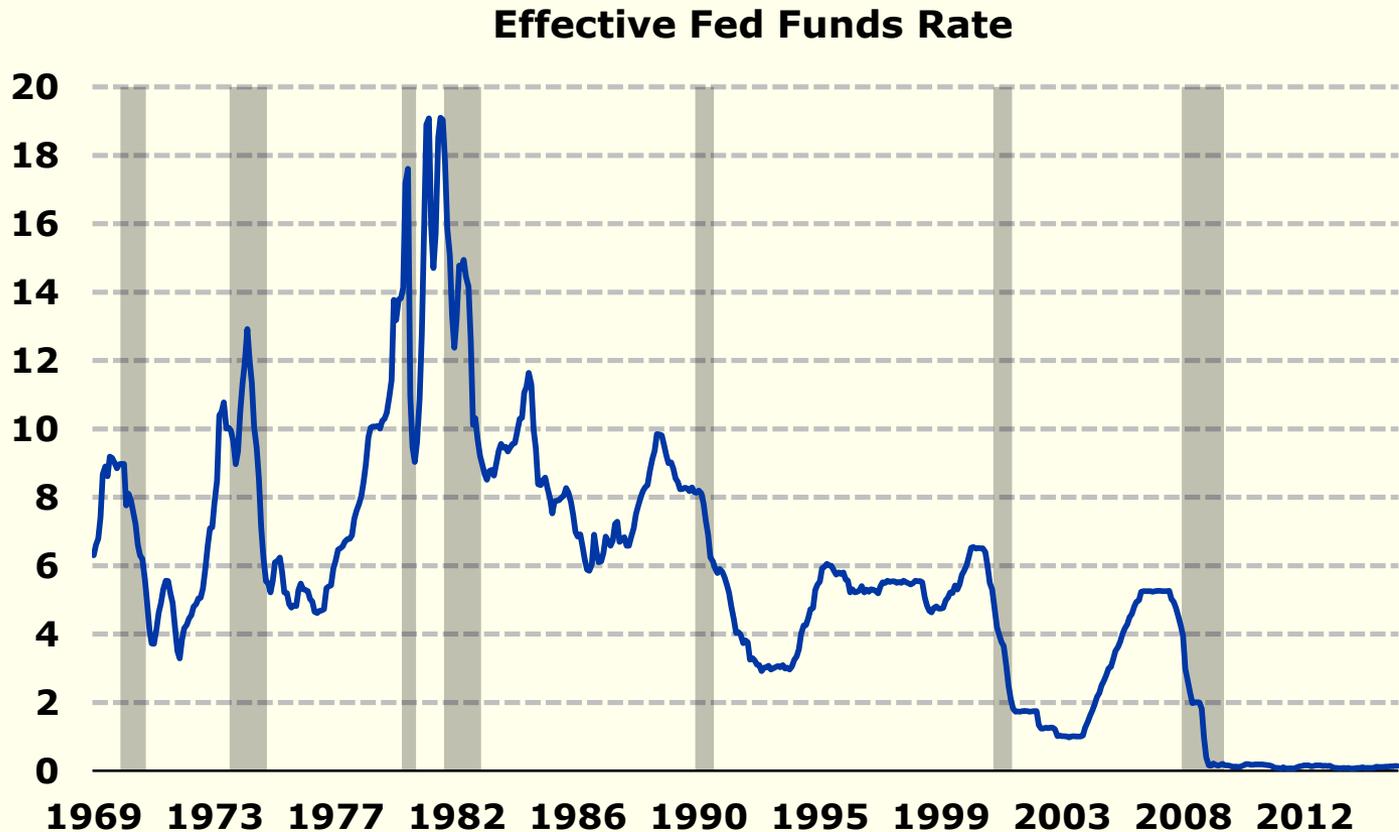
# Job openings above pre-recession levels



Source: U.S. Bureau of Labor Statistics, data through July 2015



# Recessions often preceded by Fed rate increases but with a lag



Source: St. Louis Federal Reserve, NBER; data through September 2015

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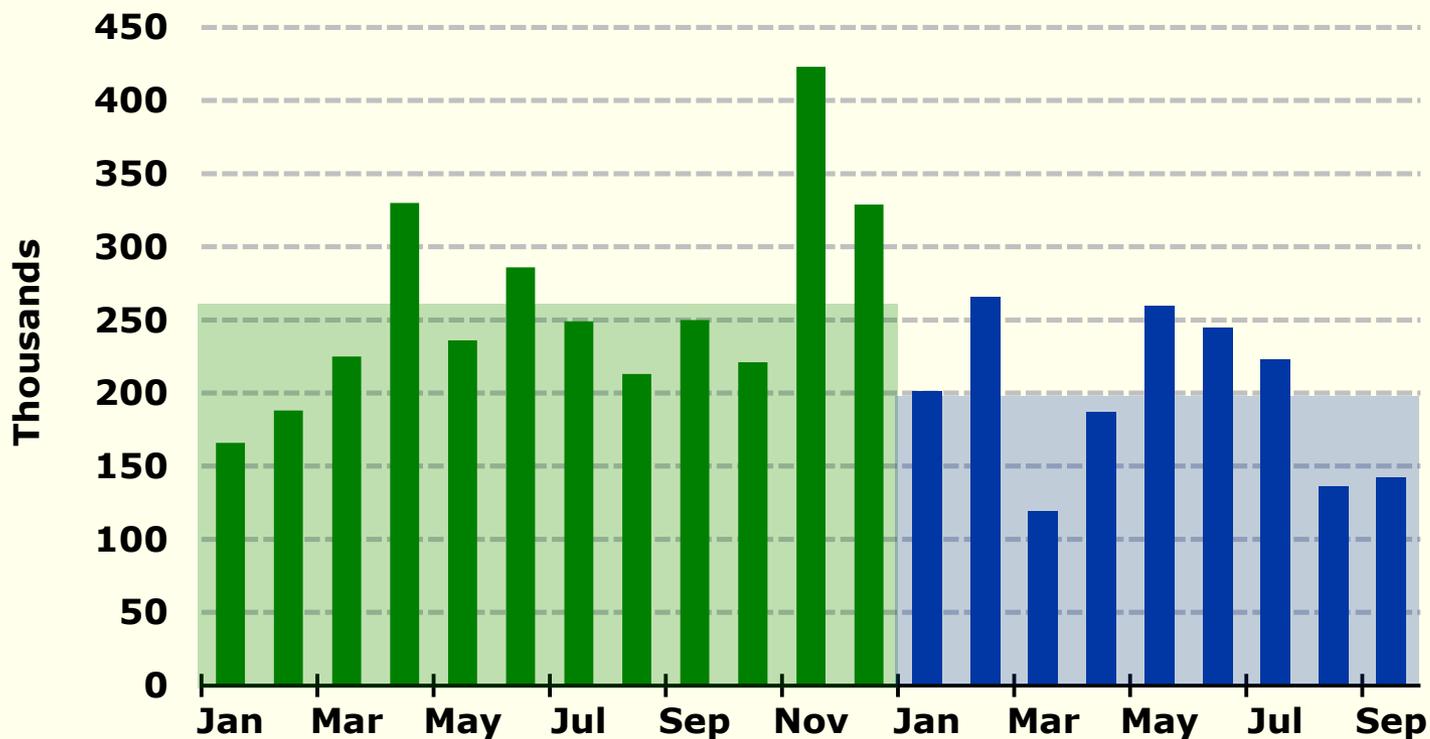
# Labor market continues to expand but at slower pace than in 2014

Average monthly employment change:

2014 = 260,000

2015 = 198,000 through September

**Net New Jobs, U.S.**



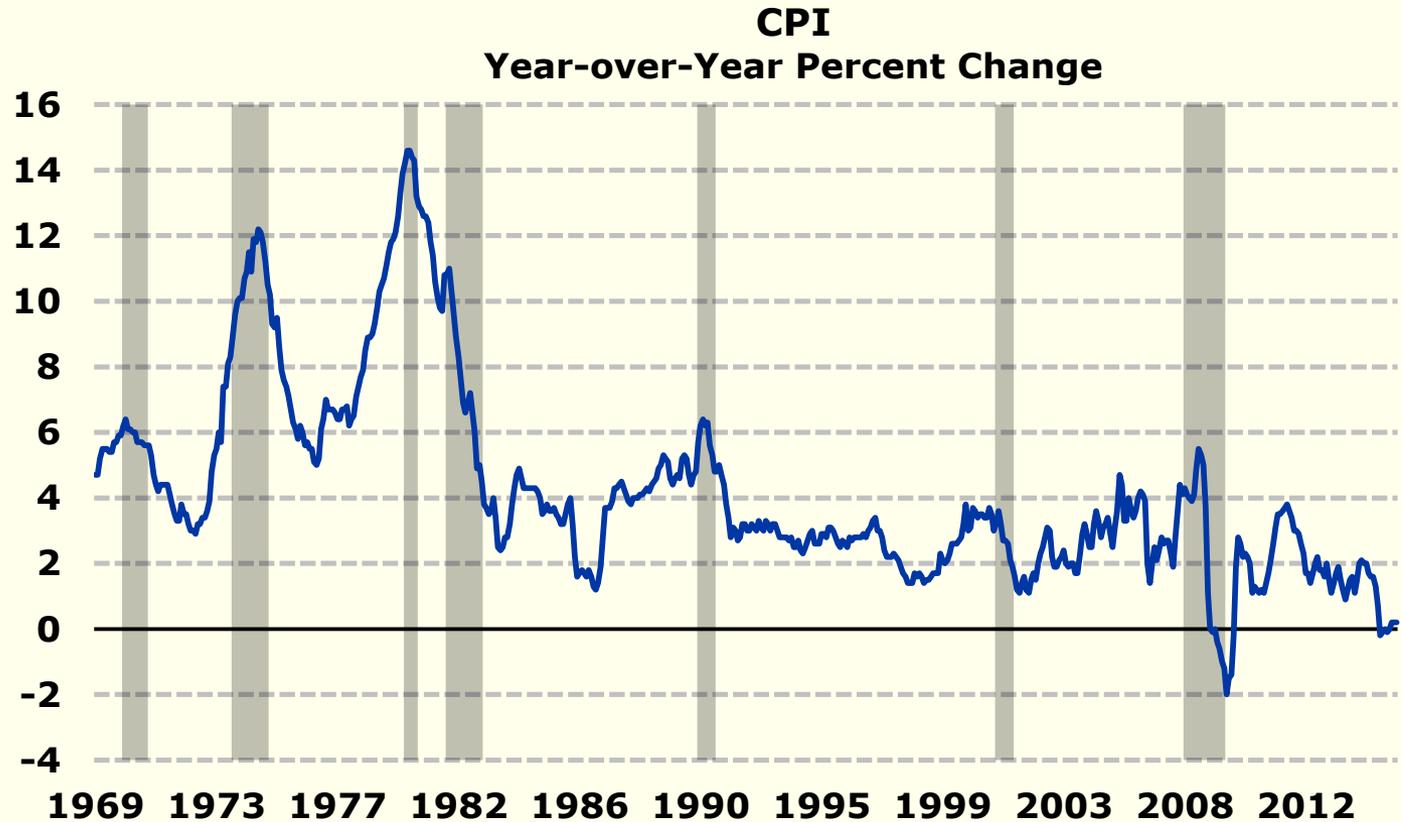
Source: Bureau of Labor Statistics, data through September 2015

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# Recessions often preceded by an increase in inflation but also with a lag



Source: U.S. Bureau of Labor Statistics, NBER; data through August 2015

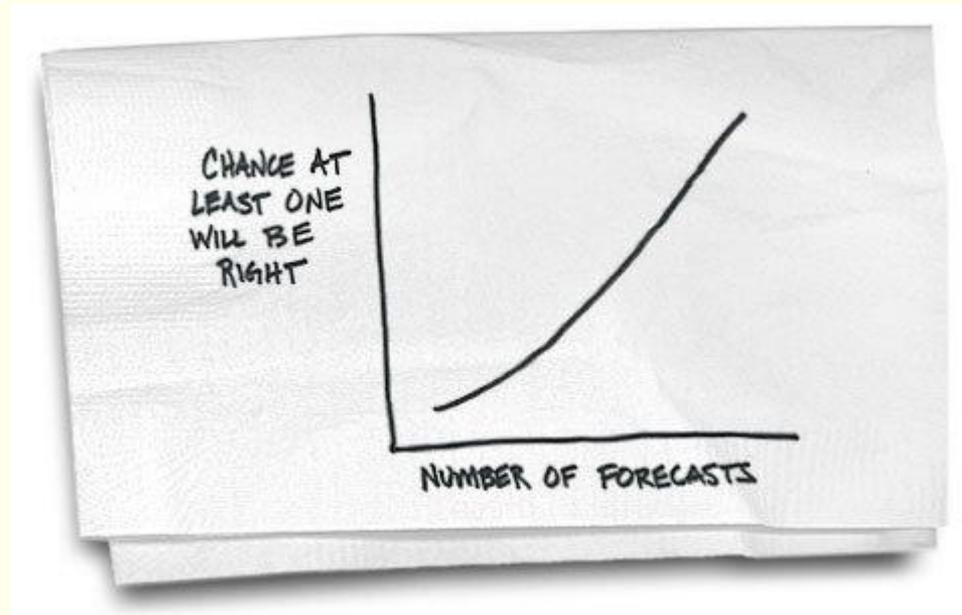
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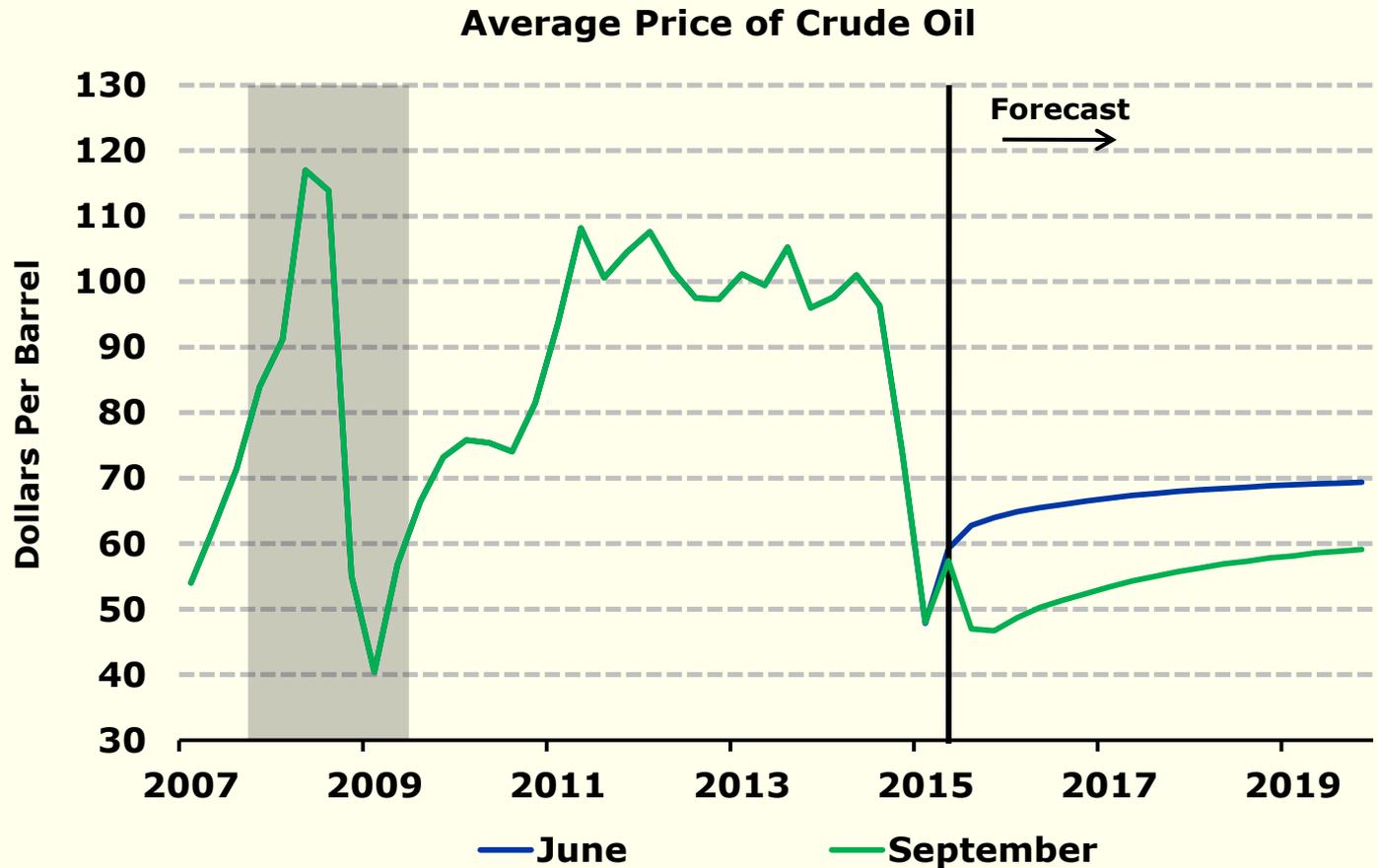


# U.S. and Washington Economic forecasts





# Oil prices are lower than in the June forecast

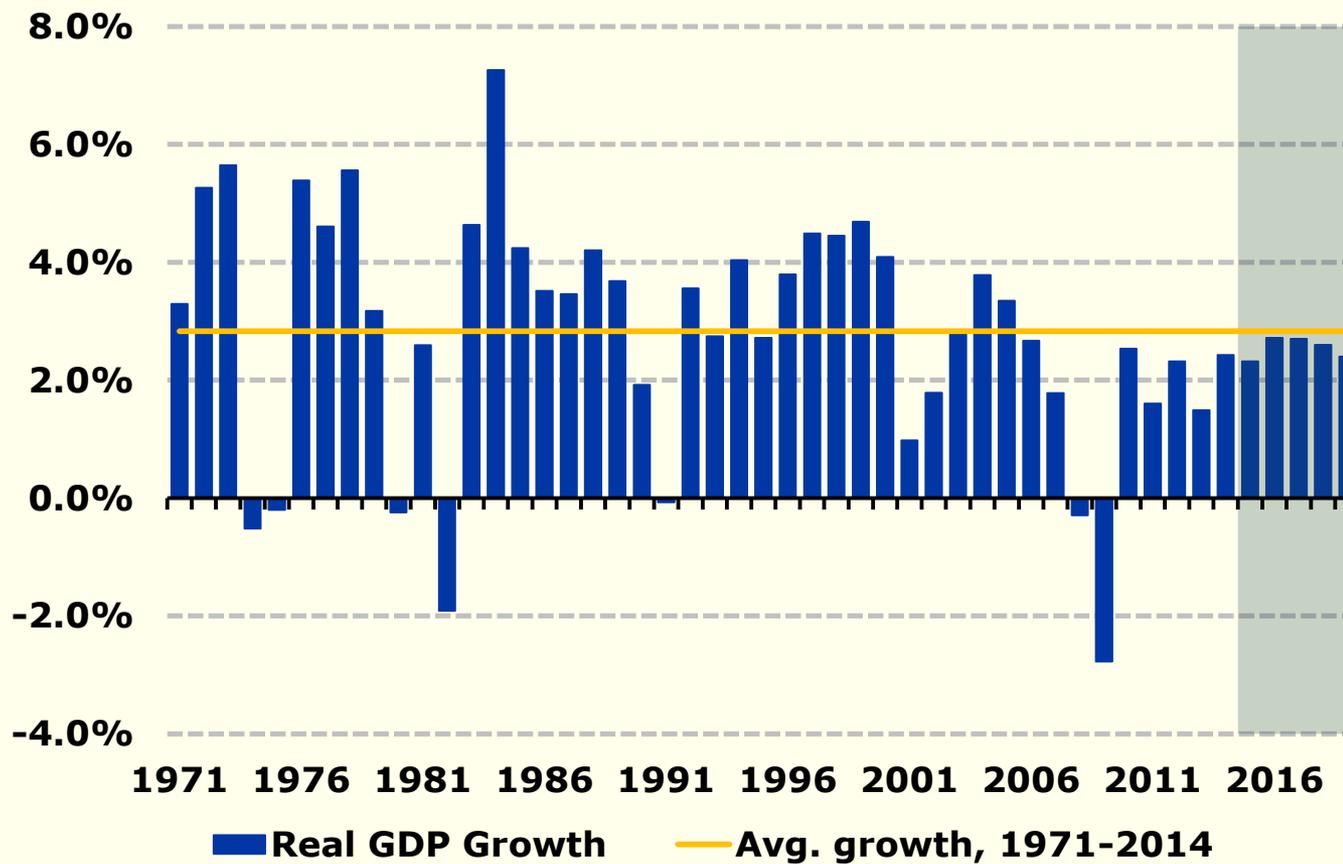


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Source: DOE, ERFC September 2015 forecast; historical data through 2015Q2



# U.S. economic growth has been slower than in past recoveries

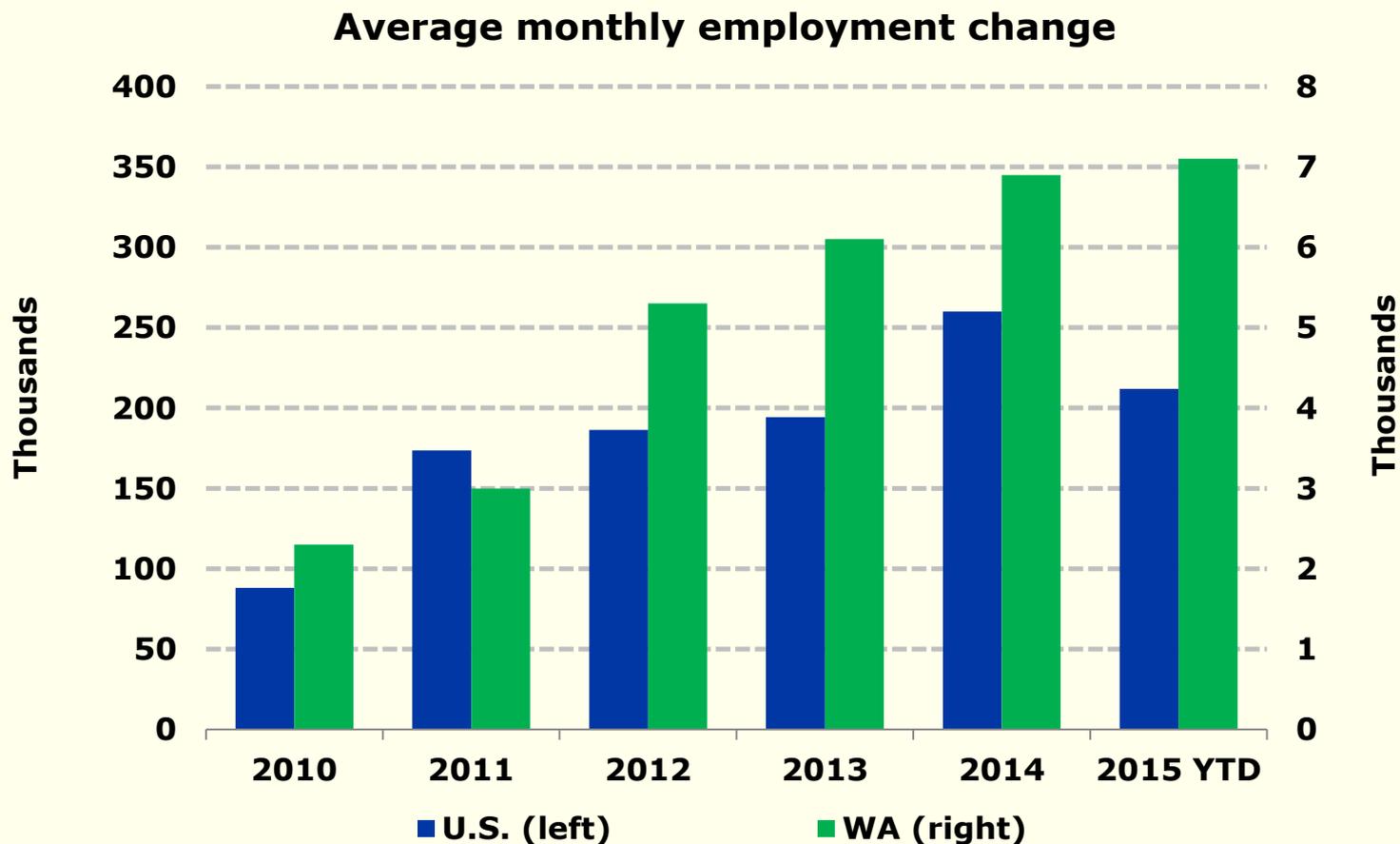


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Source: BEA, historical data through 2014; ERFC September 2015 forecast 2015-19

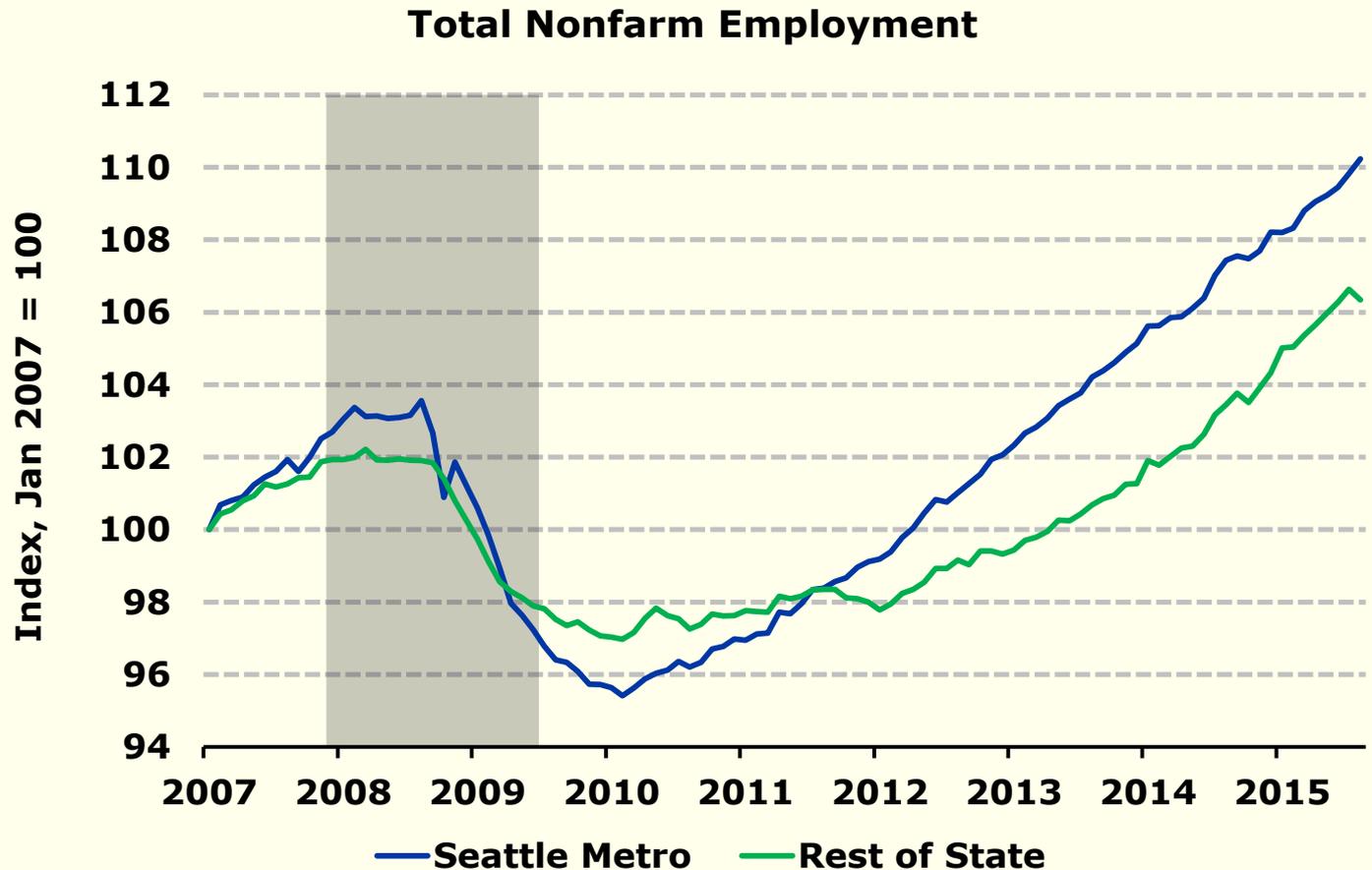


# Job creation in the WA has also been higher





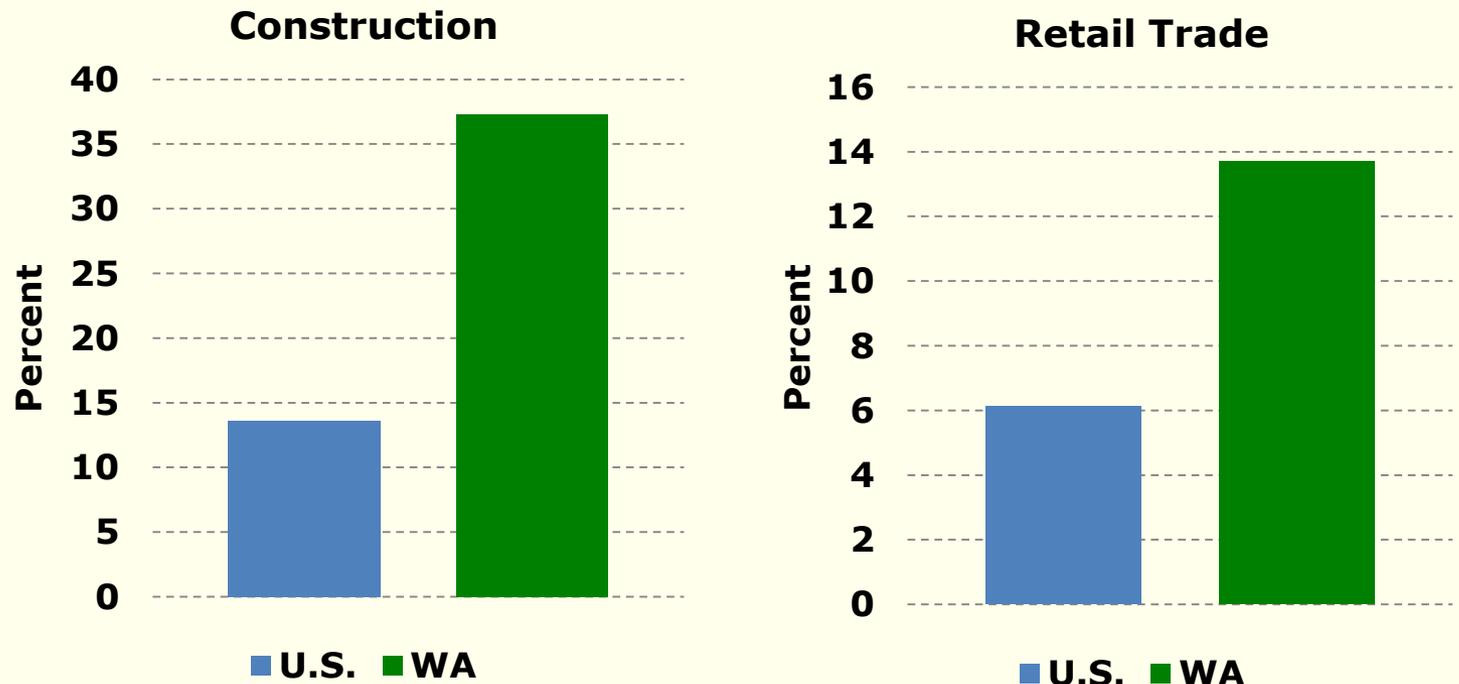
# Seattle area employment continues to grow faster than the rest of the state



Source: Employment Security Department, ERFC; data through August 2015



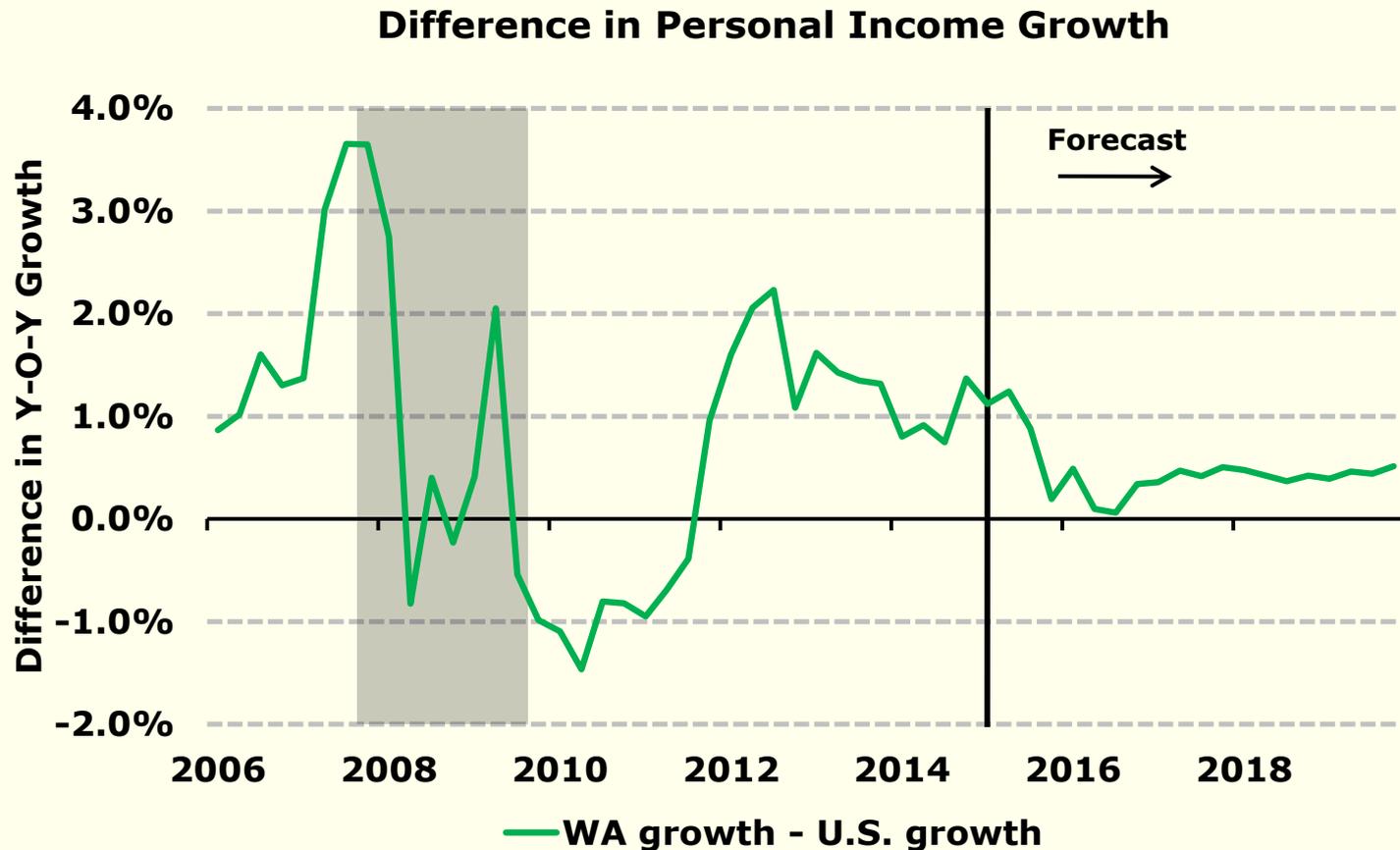
# Washington has outperformed the nation because of construction and retail trade



Source: BLS, Employment Security Department, ERFC; data through August 2015



# State personal income will grow slightly faster than the U.S.

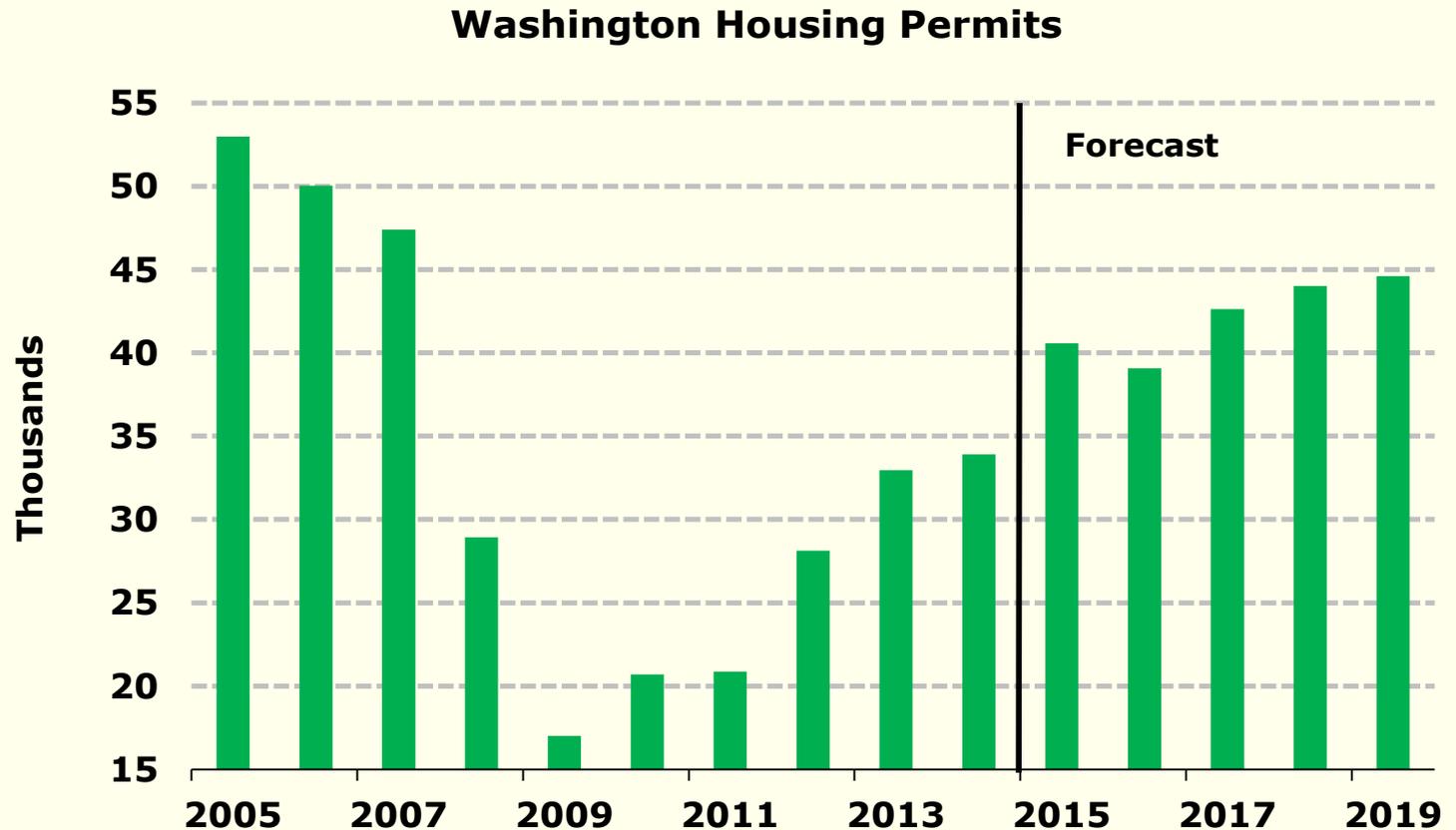


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Source: ERFC September 2015 forecast; historical data through 2015Q2



# Growth in Washington residential construction activity is expected through 2019



Source: ERFC September 2015 forecast; historical data through 2014



# Revenue Forecast





# SB5052 significantly raises the forecast for cannabis revenue

Forecast:

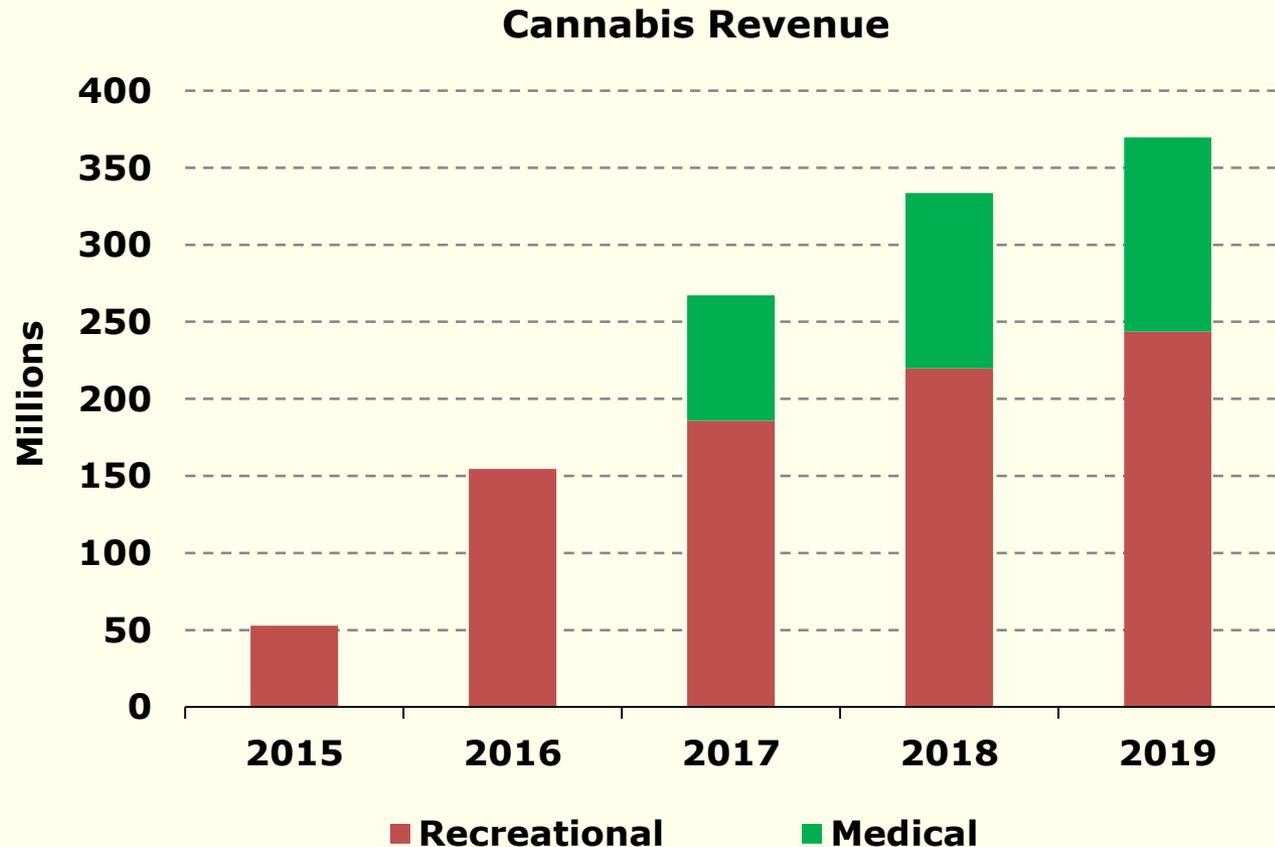
FY15 - \$52.8

FY16 - \$154.6

FY17 - \$267.2

FY18 - \$333.4

FY19 - \$369.7



Source: LCB, ERFC; data through September 2015

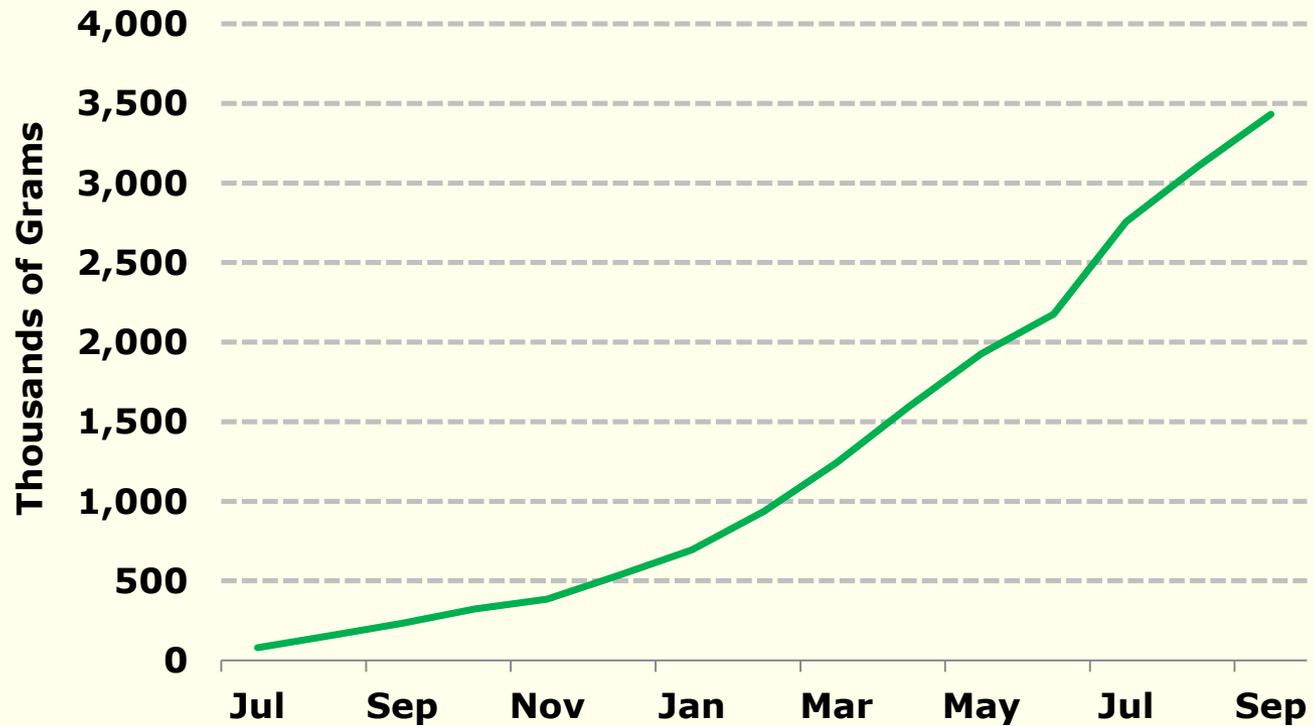
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# Quantity of usable cannabis sold through licensed stores continues to increase

**Quantity of Recreational Cannabis Sold at Retail Stores**

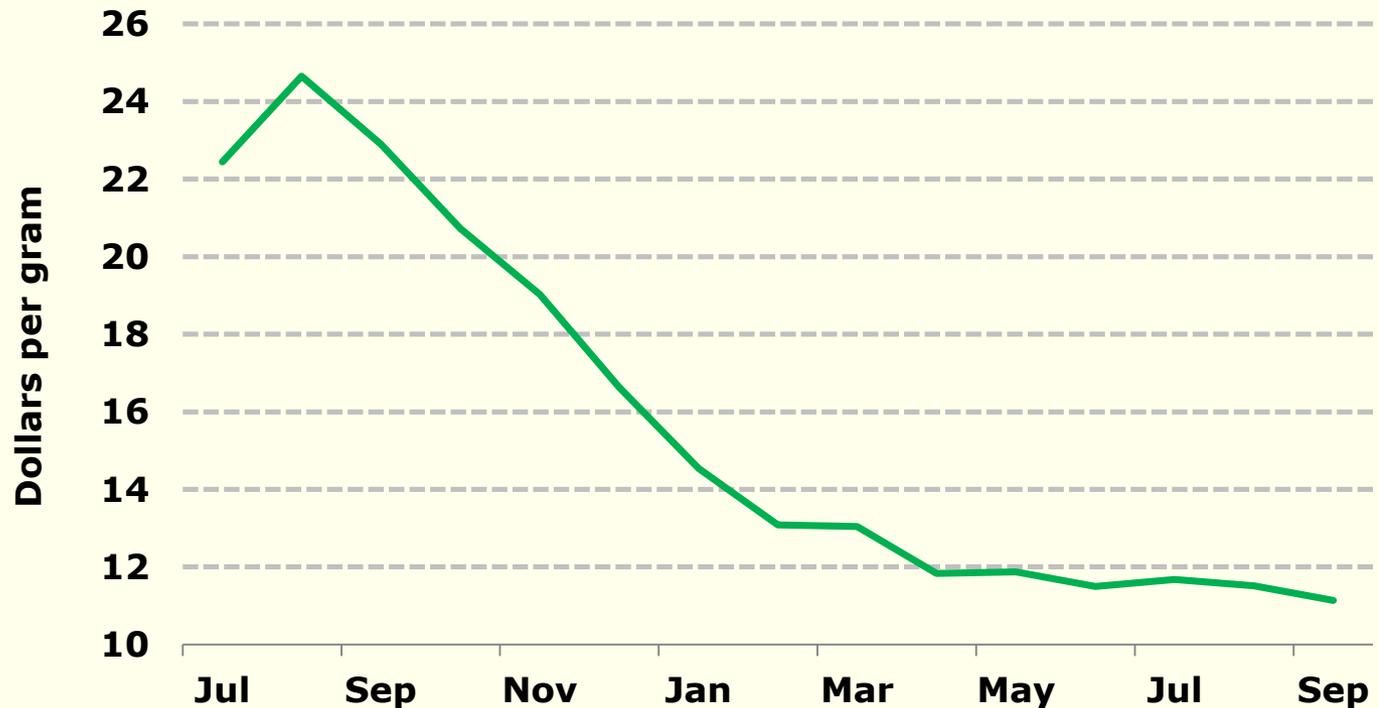


Source: LCB, ERFC; data through September 2015



# The price of cannabis has plummeted

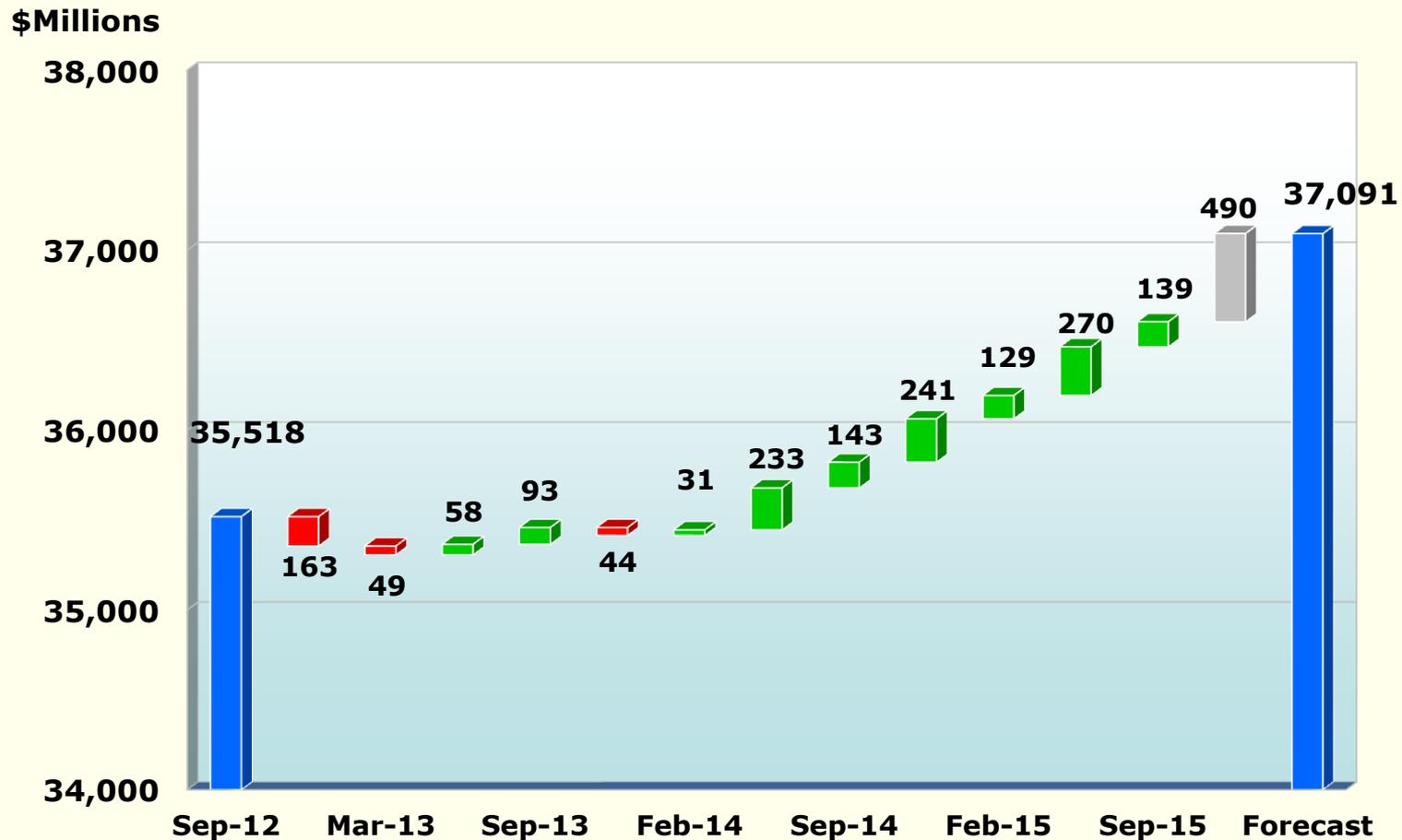
**Price of Recreational Cannabis Sold at Retail Stores**



Source: LCB, ERFC; data through September 2015



# GF-S forecast revisions to the 2015-17 biennium

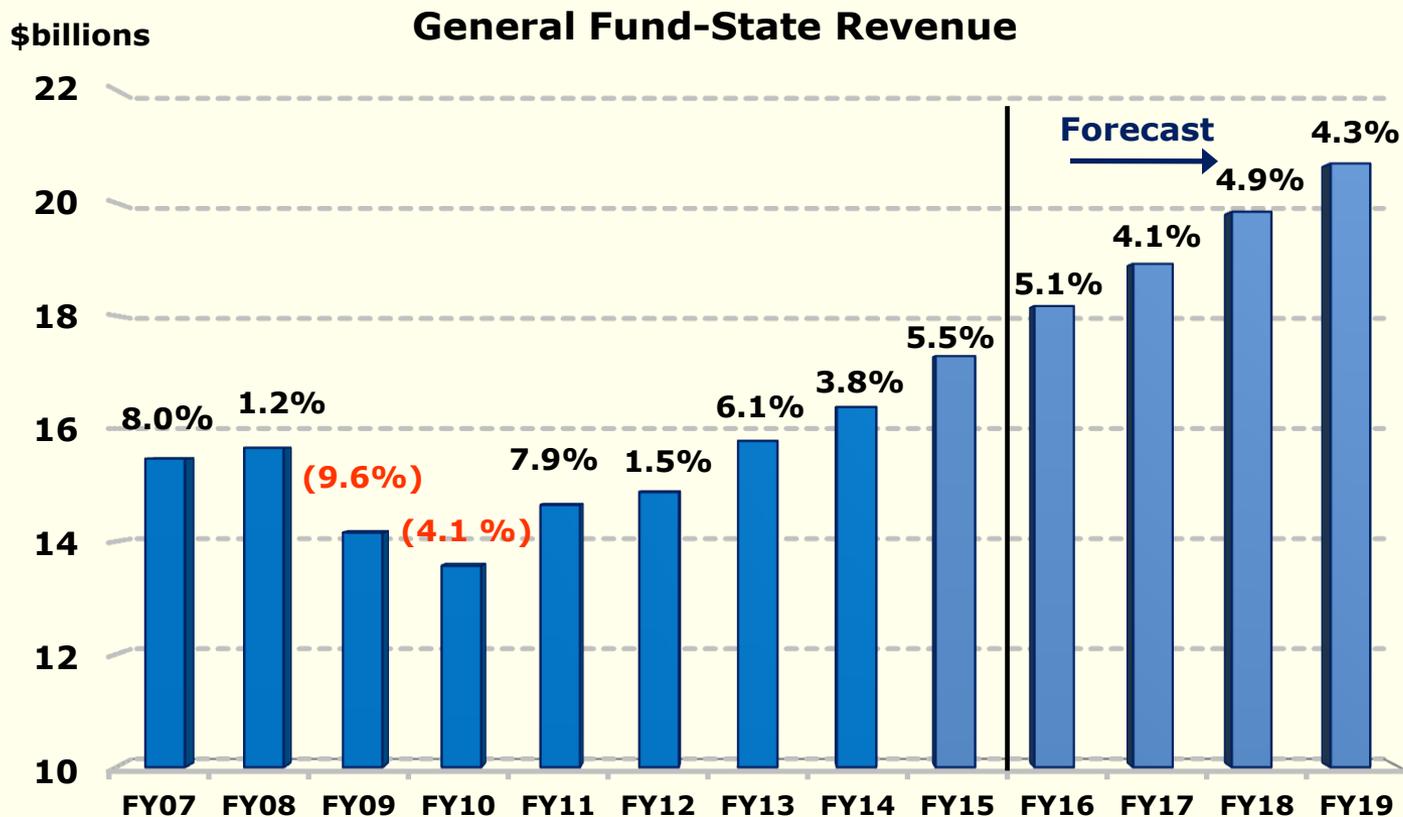


Source: ERFC September 2012 – September 2015 forecasts  
Gray area indicates total noneconomic change

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# General Fund-State\* forecast by fiscal year

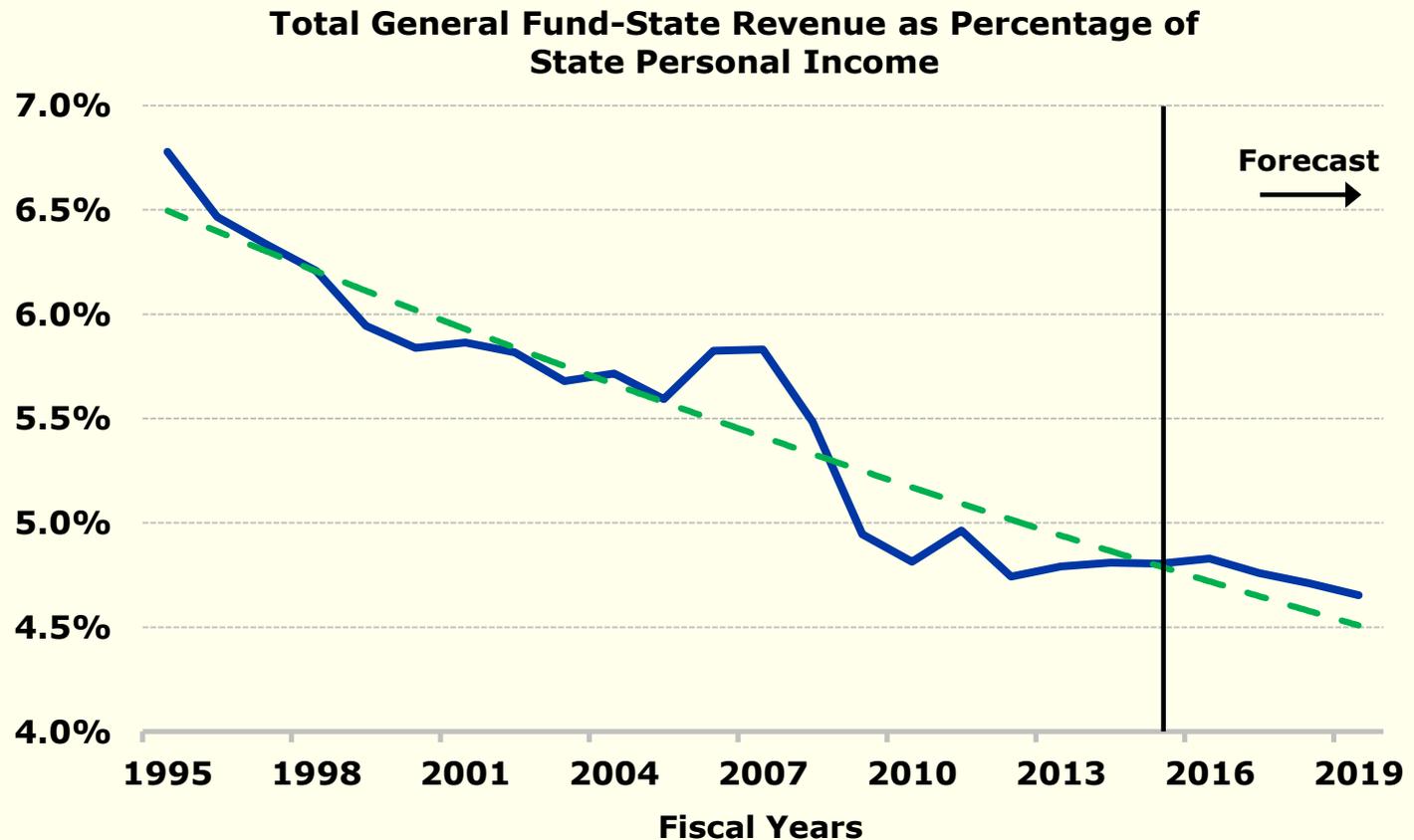


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\*General Fund-State & Related Funds for FY 07-09, General Fund-State new definition for FY 10-17  
Source: ERFC forecast, September 2015



# GF-S revenue as a share of personal income has been declining



\*Current definition of Revenue Act

Source: ERFC; data through FY 2011, September 2015 forecast



# Conclusion

- Recent economic events have generally been modestly negative
- The level of uncertainty in the forecast remains elevated, with downside risks outweighing upside risks
- The forecast is similar to the June forecast, although oil prices are lower
- We expect the moderate pace of the economic recovery to continue in both the U.S. and Washington economies
- The modest pace of revenue collections is expected to continue



# Questions



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360-534-1560**

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